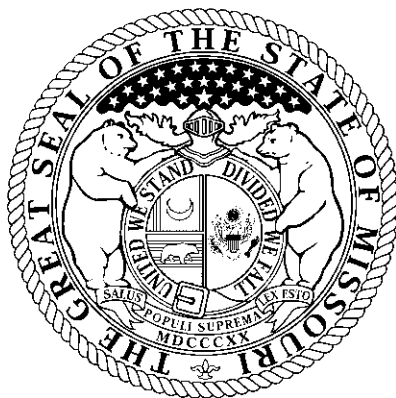


MISSOURI ISSUER REGISTRATION

A GUIDE FOR SMALL BUSINESSES



Published by
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Secretary of State

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The Missouri Securities Laws are designed to protect investors and to promote capital formation, both of which are essential to maintain a healthy business economy. Strong enforcement of the securities laws, including the provisions prohibiting fraud, creates an environment in which individual investors can feel some degree of safety, and in which the capital markets can operate in an orderly fashion.

This pamphlet is designed to introduce the small business person to the Missouri Issuer Registration process. Because the securities laws are complex, reading this pamphlet should neither be a substitute for a thorough reading of Missouri's Securities Laws, nor a substitute for legal counsel. The full text of the Missouri Issuer Registration regulation can be found in the *Missouri Code of State Regulations* at 15 CSR 30-52.271.

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**Missouri
Issuer
Registration**

The Missouri Issuer Registration is Missouri's version of a program known in several other states as the Small Corporate Offering Registration, or SCOR. It is designed for a small business seeking to raise up to \$1 million through a public securities offering. In order to qualify as a "Missouri Issuer," at least 80% of the proceeds of the offering must be used in Missouri.

In order to register, the issuer (in other words, the company proposing to offer securities) must submit a number of documents to the Securities Division for review. The most important of these documents is the disclosure document, often referred to as the prospectus.

Form U-7

Because of the expense involved in preparing a traditional prospectus, the Missouri Issuer Registration procedure allows for the use of form U-7, a fill-in-the-blanks disclosure document. Form U-7 consists of 50 questions about the business, its history, its plans for the future, the terms of the securities offering and the risks associated with investing. While use of form U-7 cannot eliminate legal and accounting fees, it can reduce them by allowing the business owner to take a more active role in preparing and assembling the necessary documentation. Form U-7 is available in printed form or on computer disk from the Securities Division. Samples of more traditional prospectuses are also available.

For purposes of the Missouri Issuer

Registration, the prospectus does not need to be prepared on form U-7. For a number of reasons, however, the Securities Division recommends that persons considering a securities offering of this type at least read through the 50 questions. First, the questions shed light on the types of information that should be disclosed in connection with a securities offering. Second, a general inability by an entrepreneur to answer these questions about his or her company indicates that the company is probably not ready to “go public.” Finally, some states *do* require form U-7.

After the prospectus is filed, the issuer should expect a number of comments and questions from the staff of the Securities Division. Responding to these comments may require one or more revisions of the prospectus. The Commissioner encourages persons contemplating a SCOR offering to schedule a pre-filing conference with the Securities Division’s registration staff. While a pre-filing conference will not eliminate the written comment process, it should help the issuer to understand the division’s standards for disclosure.

**Test
the
waters**

The Missouri Issuer Registration offers a unique opportunity to determine whether or not there is widespread interest in an offering before a company invests a large amount of money in legal and accounting fees. A company that intends to attempt a SCOR offering

may “test the waters” by distributing its business plan to prospective investors. An issuer may raise up to \$100,000 to be held in escrow until the registration process is complete. A copy of the business plan to be used in connection with the solicitation, along with a copy of the escrow agreement, must be filed with the Securities Division ten days prior to any solicitation. The Securities Division may require that the business plan be modified to disclose risks associated with the offering.

A business plan can be as simple as a statement that includes a description of the business, the resumes of those who will operate the company, the goals of the company, a summary of its operating history (if any) and the ways in which the company intends to use the money it raises. Questions 1–4 of form U-7 are examples of the kind of information that should be included in a business plan.

Any money solicited in this manner *must* be held in escrow in a banking institution. The escrow agreement must provide that the money will remain in escrow until the company has completed its registration with the Missouri Securities Division and all investors have received and reviewed a copy of the final disclosure document. Up until that time, any investor must have an absolute right to have his or her money refunded along with any applicable interest. The company may accept no more than \$100,000 without preparing a prospectus and receiving final approval from the Commissioner.

It is important to remember that the anti-fraud provisions of the Missouri Securities Act apply to all phases of a securities offering. The business plan should *not* include any promises of future growth of either the business itself or the value of the securities to be issued.

Suitability

The regulation sets out financial guidelines called “suitability standards” for those who invest in a SCOR offering. No one may invest more than \$500 unless: (1) his or her net worth is at least \$30,000, exclusive of home, home furnishings and automobiles, and he or she has an annual income of \$30,000; (2) his or her net worth is at least \$75,000, exclusive of home, home furnishings and automobiles; or (3) he or she is a director, officer or owner of 25% or more of the securities of the issuer.

**Registration
of
salespeople**

The person or persons who will sell the offering must be licensed to sell securities by the Commissioner of Securities. The company may hire a registered broker-dealer to sell the offering, or it may elect to sell directly to the public. If the offering is to be sold directly, each officer and employee who takes part in selling must pay a fee of \$50, file the appropriate registration forms and either pass a series of securities law examinations or request and be granted a waiver. Waivers of the examinations may be granted at the discretion of the Commissioner when the applicant is a *bona fide* employee of the issuer, has extensive

knowledge about the company and the terms of the offering, and the potential for harm to investors is minimal.

Other laws

Registration of an offering with the Missouri Securities Division does not excuse compliance with federal law or the laws of other states in which the securities might be offered. The Missouri Issuer Registration was designed to complement section 504 of Regulation D on the federal level. Other exemptions may be available; you should consult with an attorney familiar with federal securities law or contact the Securities and Exchange Commission.

**Missouri
Issuer
Checklist**

Checklist of items to be submitted to the Securities Division in connection with a Missouri Issuer Registration:

- ✓ Prospectus
- ✓ Filing Fee (\$100 plus 1/20 of 1% of the offering price over \$100,000)
- ✓ Copies of all advertising materials
- ✓ Selling Agency Agreement
- ✓ Articles of Incorporation or Certificate of Limited Partnership
- ✓ Bylaws or Partnership Agreement
- ✓ Corporate Resolutions authorizing the sale of securities
- ✓ Trust Indenture (if applicable)
- ✓ Specimen of Security
- ✓ Consent to Service of Process (Form S-B or U-2 and U-2a)
- ✓ Subscription Agreement
- ✓ Opinion of Counsel as to the validity of the securities offered
- ✓ Residence Addresses of Promoters

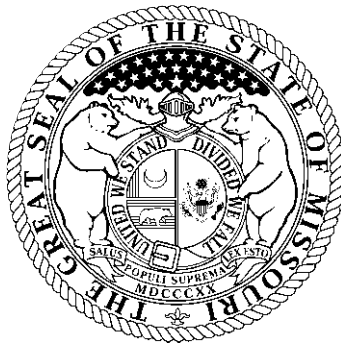
**Services
of the
Missouri
Division
of Securities**

The Missouri Securities Division is a division of the Office of the Secretary of State. The Securities Division registers securities offerings, licenses the individuals who sell securities, grants exemptions from registration and issues opinions concerning the legality of securities transactions. The staff is available to answer questions you may have about capital formation between the hours of 8 a.m. and 5 p.m. The office is located in the James C. Kirkpatrick Information Center in Jefferson City.

Inquiries about securities registration:
(573) 751-4136

Inquiries about agent licensing:
(573) 751-2061

Missouri Securities Division
Office of the Secretary of State
James C. Kirkpatrick State Information Center
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